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USING THE BASE OF THE PYRAMID STRATEGY AS LENS FOR CROSS-SECTOR COLLABORATION IN FINANCIAL INCLUSION: CASE OF E-MASARY FOR MOBILE FINANCIAL SERVICES

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Mobile Financial service is one of the cutting edge movements to bank the unbanked by integrating donor and enterprise market approaches for Financial Inclusion (FI). In this paper, we address how to integrate Donors-Led Value Chain and Enterprises-Led Value Chain to get a sustainable impact on the unbanked micro-entrepreneurs. However, each has advantages and disadvantages as they go along the stages of design, implementation, and sustainability. Using the Base of the Pyramid (BoP) perspective, we argue that the BoP Value Chain mixes up the relatively high start-up capabilities of Donor-Led Value Chain with the relatively wider impact of Enterprise-Led Value Chain. Further, it enables both donors and enterprises to develop a reconciled balanced scorecard to collect relevant and up-to-date information about economic returns, social benefits and local impact. Such integration guarantees flexible long term investments and helps innovating new services. These findings offer a deeper insight of the organizational perspective of mobile-based FI projects rather than the technical perspectives dominating the field (Mas & Olga, 2009; Mas, 2011).

Keywords: BoP, Stakeholder capitalism, Value chain, Financial Inclusion, Mobile Money

INTRODUCTION

The lasting misery faced by much of the world's population can be the reason for and the consequence of poverty and disenfranchising that remains one of humanity's greatest challenges (Chambers, 1983; Margolis and Walsh, 2003). In response, the interest of donors and enterprises in using market-based strategies have increased to enfranchise the poor micro-entrepreneurs and link them to the financial system (Hulme and Arun, 2009; UNCTAD, 2011; Yunus, 2003). Despite the growing trend toward these approaches, critiques are still rising and convincing (Copestake, 2007; Jaiswal, 2008; Karnani, 2007; Morduch et.al, 2009). The Donor-Led Initiatives and the Enterprise-Led Initiatives operate relatively independently of one another, as the goals of generating profits and alleviating poverty are often seen as irreconcilable and sometimes conflicting (London and Anupindi, 2011). Getting both approaches compatible may contribute to achieving sustainable development with wider outreach (Kelly, 2009; London, 2011). A candidate business strategy, the "Base of the Pyramid" (BoP), offers insights into how this could occur (Prahalad, 2010; Prahalad and Hammond, 2002). *"What insights, then, does the BoP perspective offer for enhancing the integration of donor and enterprise investments?"*

To address this research question, the present article focuses first on comparing Donor-Led Initiatives and Enterprise-Led Initiatives and underpinning value chains. Then it examines the opportunity to use the BoP perspective to better integrate these efforts. We see this effort as an

important step toward addressing the broader question of “*how to make market-based approaches work better for the poor*”.

This research reviews the challenges of banking the unbanked such as investment and profitability, digital infrastructure and mobile-based supply chains, regulations and the overall regulatory legal frameworks. Next, we provide a body of grey literature including empirical cases of mobile financial inclusion in order to build up a candidate conceptual framework based on which we explain the motivation for integration between donors and private enterprises in our targeted e-Masary case study. Using the simple value chain model developed by Michael Porter in 1985 we developed *BoP Value Chain Model (BoPVC)* as a detailed *guideline for integrating donors and enterprises in mobile financial inclusion projects*.

As this research addresses the socioeconomic complex phenomenon, *interpretive qualitative* approach is adopted (Myers, 2009). We collect our data from *e-Masary case study* for mobile money services in Egypt after the revolution. Using the BoP value chain model we provide analysis of different donors and enterprises networks in e-Masary and how these networks prompt to integrate in a new business form to bank the unbanked Egyptians estimated to be 80% of the population. *Semi-structured interviews, focus groups, field visits and archival studies* are the data collection methods used to provide an extensive answer to the research enquiry (Bryman, 1989). *Template analysis* was also used to interpret the huge amount of data into the key findings (King, 2004).

The key inquiry of our research is not whether the market-based approaches work or not, but rather how to integrate them to get a sustainable impact. Both the donors and enterprises have adopted the value chain approach to finance the poor micro-entrepreneurs. However, each has its advantages and disadvantages as they go along the stages of design, implementation, and sustainability. Using the BoP perspective, we argue that the BoP mixes up the relatively high start-up capabilities of DLs with the relatively wider impact of Enterprise-Led Initiatives. It also requires that the partners develop a *balanced scorecard* (online grid) to collect relevant and real time information about economic returns, social benefits and local impact. In addition, partners have to balance between the balanced scorecard and staff incentives to sustain their engagement with the poor micro-entrepreneurs.

We also found that BoP initiatives need to be more flexible in fulfilling long term *financial commitments* and building innovative value chain. For financial commitments during the introduction stage, donors may rely on building business intimacy with a larger set of enterprises and focus on sharing knowledge and resources. Then in later stages (long run) they may select a smaller number of partners who have access to more resources and willingness to provide greater financial support, extended interactions, and detailed technical assistance. *Innovating business model* needs trial and error, particularly in the design and implementation stages and also needs that long term financial and technical support to reduce the risk. We found that engaging the poor micro-entrepreneurs in the design and implementation stages reduces error and improve the sustainability. Closing this paper we argue that the BoPVC provides a new lens for the BoP approach and present it at a new version of “*stakeholder Capitalism*” (Freeman and Liedtka, 1997) that raised the quest for socially interact among multiple stakeholders to co-create a better value rather than being self-interested and maximize their own benefit.

FINANCING THE POOR:

About 2.6 billion people, 70% of the population in the developing countries, are disenfranchised from the financial system clarifies that banking is simply not a mass market proposition (World databank, 2011). Those people live in misery without proper food, shelter and education. If they got access to microcredit, they would be able to create microenterprises and set aside some money on each pay day apart of the due amount and its interest (Mas, 2011)¹. Such micro-savings would improve their livelihood and their ability to manage their cash flows more simply as well as to secure stable daily food consumption for their families along seasonal income fluctuations (Demirguc-Kunt, 2008; Duncombe, 2006). They would also be able to use this money to pay for their children's education, invest in fridge to store their dairy or buy hay to feed their livestock. In addition, they would be able to amass assets to bulwark themselves from unexpected live shocks such as diseases or work related problems. It is undeniable that such practices may help them self-funding their microenterprise one deposit at a time, rather than going through the microcredit cycle again (i.e. paying high interest-rate charges one loan repayment at a time) (Beck et.al, 2007; Matin et.al, 2002).

The ability to transfer micropayments safe and cheaply to remote individuals (e.g. family members living in villages) or organizations (FMCGs and utilities) is also one of the benefits that micro-entrepreneurs would gain, if they get access to the financial system (Hughes and Lonie, 2007). Further, they could receive international remittances from migrant relatives or companies they supply in other towns without going to the physical branches of financial service providers (Ivatury and Mas, 2008). Based on the above discussion we can argue that all of these financial services are complementary and have mutual impacts on the livelihood of the poor people specially the micro-entrepreneurs. Once they get access to one of these services they become more willing to pay for the other financial services as long as they are packaged in a way that is relevant to their needs, sized appropriately, and delivered conveniently (Hulme and Thankom, 2011).

The success of financial service providers in Asia (e.g. Grameen, SKS and SMART Money), in Africa (e.g. M-PESA and Celpay) and in Latin America (e.g. Banco Sol and No Borders) have built a massive network of retail agents serving villagers (Mendoza and Vick, 2010). Those agents are usually non-branch licensed physical outlets such mobile retails or grocery kiosks who conduct credit evaluations and collect repayments. Despite this potential to micro-entrepreneurs and to the whole poor, service providers see it as *unprofitable* and needs huge *infrastructures* and *regulatory frameworks* (Mas, 2011).

Financial Service Providers attribute the *unprofitability* of the poor market to low balances, small amounts per transaction and seasonality of transactions (Cull et.al, 2009). They doubt the poor's creditworthy without source of collaterals (Morduch, 1999). Then it is surprising to find U.S 50 worth products such as a bottle of Coca Cola, a mobile prepaid card, a small jar of vitamin-full yogurt and sachet of shampoo in almost all the village stores in the developing countries. Probably Financial Service Providers neglect so many customers who might want to pay for affordable financial services as they do for a bottle of Coca Cola². This controversial question is highlighted by Hamada (2010) as the main character of the first paradigm shift in microfinance. There are two paradigm shifts in microfinance: the first paradigm started in the second half of the 1980s when microfinance shifted from agri-credit or microcredit subsidized by government and/or donors funding small farmers to microenterprise finance via market-based approaches. This paradigm focused on overcoming the

¹This research does not aim to discuss the feasibility of financial inclusion industry as an absolute solution for
²See Ray (1998), Robinson (2001), and Armendariz and Morduch (2005) that studied the profitability mechanism in the market-based financial services for the poor.

high transaction costs and risks because of information asymmetries (Zeller and Meyer, 2002); the second paradigm shift emerged in the middle of the 2000s when CGAP called for building inclusive financial sectors in the developing countries (Hamada, 2010). The later resulted in three domains micro, meso, and macro (Duncombe and Boateng, 2009). The macro-level includes state legislative and policy frameworks, while the micro-level includes financial service providers (banks and non-bank) that offer services to the poor. In the middle, the meso-level that includes the financial system's basic financial infrastructure and its range of services (e.g. microfinance mechanisms and ICT application). In this respect it is important to explore how service providers employ operating models suitable for the poor.

Building suitable *infrastructure* is the second challenge faces the Financial Service Providers target the poor. For the poor, money is a physical value of needs (e.g. food, shelter and cloths) whilst for the rich it is an electronic value where financial institutions process accounting information. Electronic banking bridged the physical cloud with the electronic cloud using Automated Teller Machines (ATMs), Visa cards, and Points-of-Sale (PoS) terminals in retails (Lyman et.al, 2006). In doing so, electronic banking enables the rich people to use money that is already uploaded to their bank accounts in sort of information.

Conversely, the poor people get paid in cash that needs to be transformed to the electronic format. Financial Service Providers think that the poor needs too many branches to deposit their money in an electronic form which is unprofitable considering the huge fixed costs for building new branches and recruiting suitable staff. Mass (2011) agrees with that the majority of Financial Service Providers are still following direct distribution model while many other service providers (e.g. Utilities and railway companies) adopt multi-distribution model. Whilst Financial Service Providers see physical branches as the main challenge, the other providers partnered with third-party like mobile operators to facilitate prepaid billing platforms (Barnes, 2002).

Financial service providers will reach the huge market at the BoP only if they found a way to eliminate costs. The alliance between Grameen Bank, Grameenphone, developed a network of "Phone Ladies" in Bangladesh to operator "Village Phones". The phone ladies are borrowers who get equal to US 200 dollars loan from Grameen Bank to subscribe to Grameenphone. Once they subscribe, they get trained on how to operate mobile phones and how to charge others with a profitable price. In April 2012, the village phones exceeded 471,423 phones operating in 297,079 villages around Bangladesh and serve 162,220,762 clients (Grameen Bank, 2012). This program has been replicated in Nigeria, Uganda, and Rwanda (Islam, 2005; Keogh et.al, 2005). Given that some of the Phone Ladies have decades of experience with the bank, they represent a very cheap distribution channels that achieved revenues of nearly \$30 billion and net profits approaching \$600 million by end of 2011 (Grameen Bank, 2012). Banco do Brasil acquired a network of 8,600 retail agents equipped with point-of sales readers to upload cash into electronic accounts (CGAP, 2010). These retails sell white-goods in the Brazilian villages and hamlets serving 1,461,850 unbanked clients including 528,792 active clients of Microfinance Institutions (MFIs) (CGAP, 2011).

Despite that Financial Service Providers in developing countries have begun turning fixed costs into variable costs and use new channels; they are often hampered by *regulation* (Weber and Darbellay, 2010). M-PESA in Kenya is an example of how governmental regulations may facilitate (or hinder) the success of mobile-based financial services. The Kenyan banks claimed that their regulated services have been overwhelmed by M-PESA who, within two years of operation, had 13,142,550 in comparison to 8,600,258 existing bank customers (CGAP, 2011). Regulators focus on the aggregation of funds through receiving deposits from the poor than the rich people while offering the same interest rate (Ivatury and Mas, 2008). Bankers are restricted by operational regulations that govern

how they develop their products, distribution channels, information systems and management structure. Altogether affect their ability to innovate and drive up costs and in turn decrease their profitability in such market (Mas, 2011). In Kenya, for instance, bank branches are subject to periodical physical inspection by an authorized representative of the central bank. In case of service termination, they are also required to give six months “closing notice” to the central bank (Mas, 2011). It does not mean M-PESA runs free of risks. Ivatury and Mas (2008) reported lots of operational problems³ concerning the possibility of data leaks at the retail agents and low level of security in the rural kiosks. However, evidence showed that the Central Bank of Kenya dedicated all efforts not to organise M-PESA as a bank but to operate outside the casual banking rules (Hayes and Westrup, 2011).

Concluding this section, we argue that the FI literature focus more on the technical issues discussing profitability, infrastructure, and regulatory frameworks than other organizational issues that cannot be determined as a cause-effect relationship (Alter, 2010). Mobile financial services in particular are usually provided by multistakeholders who go through different organizational conciliations to build competitive business model and reach to the poor unbanked customers. In response, the next section will cover the organizational side of these types of projects using grey literature and empirical case studies to see if a concert framework can be constructed to conceptualize these organizational issues.

LITERATURE REVIEW: VALUE CHAIN IN FINANCIAL INCLUSION

In his seminal competitive strategy, Michael Porter defined the value chain, as a group of processes that chronologically ordered and followed by a firm to transform inputs (e.g. Raw materials, information, people) into final outputs (products and services). While this view was manufacturing-based, another service-based view has been developed (Rayport and Sviokla, 1995). The later view aroused to trace value added within the market space dominating the information age. Rayport and Sviokla (1995) define the virtual value chain as all activities conducted by managers to create value with information. He then classified these activities into five groups; gathering, organizing, selecting, synthesizing, and distributing information. Freeman and Liedtka (1997) combines both views into a unified definition of the value chain as “a set of processes through which a constellation of actors work together to continuously innovate in a way that produces value for customers”.

In the development studies in general and in FI in specific, there are two types of value chain; Donor-Led and Enterprise-Led (Simanis and Hart, 2009; London and Anupindi, 2010 & 2011). Donor-Led Value Chain (DLVC), adopted in development programs targeting poor micro-entrepreneurs in which, the donor-funded Implementing Partner (IP) plays the role of network orchestrator. The IP remains outside the value chain and focuses on facilitating rather than directly implementing any changes. Such facilitation underpins demand for specific products/services as well as increasing the supply of higher performing smallholders. In the Enterprise-Led Value Chain (ELVC), private enterprises act as the network orchestrator. They operate within the value chain and look for growth strategies and opportunities for competitive advantage (London and Anupindi, 2011). Investments are viewed through an economic lens of benefits versus risks and require building sustainable

³Examples of the problems and other associated risks are credit risk, liquidity risk, reputational risk and potential for money laundering. See Ivatury and Mas (2008).

relationships and transferable capabilities. Both DLVC and ELVC pass through three stages of development as follow:

- (a) Design stage in which the initiative is conceptualized, and initial goals and performance metrics are developed. It ends with the decision of whether or not to implement.*
- (b) Implementation stage that involves launching the proposed business model.*
- (c) Sustainability stage during which we assess the opportunity to sustain and the scale of activities implemented.*

Recently, the rate of donor-led financial institutions counted to 73% worldwide (MicroRate, 2011). These institutions are mostly founded by mega donors such as the United States Agency for International Development, the United Kingdom's Department for International Development, Swiss Aid organization, Germany's Gesellschaft für Technische Zusammenarbeit, The World Bank, International Finance Corp. (IFC) and a variety of other development agencies and foundations (Bauchet et.al, 2011; London and Anupindi, 2011). Such donors struggled to develop their existing value chains for integrating micro-entrepreneurs into the domestic and international financial markets, as well as providing a wide range of financial services for the poor (Helms, 2006).

Enterprise-led Financial Service Providers (Financial Service Providers) in Africa, Asia, and elsewhere, seeking innovative sources of finance via new value chains, are also exploring non-traditional opportunities to include the unbanked poor in these value chains (Mas, 2011). With little prior knowledge and experience in this market environment, these ELVCs face difficulties identifying opportunities and developing scalable business models that generate competitive advantage (Valadez and Buskirk, 2011).

Donor-Led Value Chain

In this section we explain the three stages of DLVC including design, implementation and sustainability stages as shown in Figure 1 below.

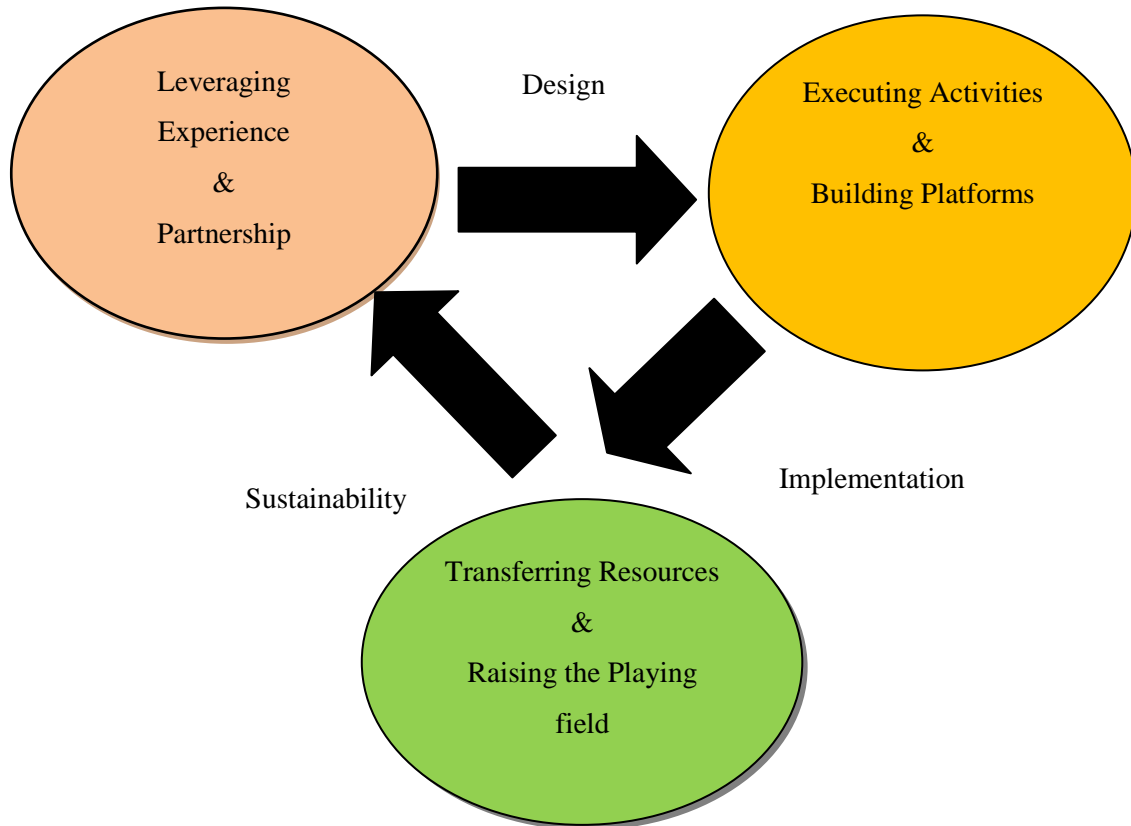
Design stage. This stage leverages the initial experience and builds partnerships via two steps. First, the donor decides to invest resources in a targeted industry (such as agriculture, handicrafts, fast moving consumer goods microfinance or mobile telecommunication) or Subsector (such as dairy, livestock breeding or micro-lending) and call organizations for bids (London and Anupindi, 2011).

In doing so, the donor issues "Request for Proposal" and "Requests for Assistance". Each state the general objectives (including performance indicators) required to improve the competitiveness of the chosen sector.

The USAID-Zambia, for instance, sponsored the Production, Finance, and Technology (PROFIT) project to help unbanked farmers collect payment from cotton's ginner and food processors via mobile banking agents like airtime dealers, gas stations, or grocery retailers. Further, it enables them to pay for suppliers (e.g. veterinarians and fertilizers' providers) against purchases of inputs (Ducker and Payne, 2010).

At the design stage, USAID-Zambia identified the country-level needs as wider access to the poor markets, enhanced value added and production technologies, increased financial and business development services, improved enabling environment for growth and infrastructure for electronic payment platforms.

FIGURE1
Donor-Led Value Chain



Source: the author's literature review

Then USAID/ Zambia requested proposals from third party or IP to address these issues (London and Anupindi, 2011). The main selection criteria (selection metrics) were the IP's ability to increase the customer outreach, increasing value of per unit production of harvested lands, and increasing number of female workers in producer organizations (Snodgrass and Woller, 2006:6). Further, candidates had to identify the resources they dedicated to the project, their potential partners, and their action plans (including yearly activities, budgets, and expected outcomes). Above all, IPs had to have long experience and enough knowledge of the problems and challenges face the poor farmers. Potential partnership is an asset for the selected IP as identifies the key organizations and individuals enlisted to execute the project and the business model to be implemented. For instance, the Cooperative League of the United States of America (CLUSA) has been selected as the IP of the PROFIT project due to its five decades of experience in developing countries and extended worldwide network of partners.

Implementation Stage. Once the IP is selected, they act according to the presented plan including detailed metrics with measurable objectives. As the DLVCs are usually short-term, there is no chance for trialling and learning from mistakes (Woolcock, 1999). So the IP and its network of partners are responsible for educating, transferring knowledge, and help creating social capital among bottom line performers (Woolcock and Narayan, 2000). They are also responsible, in some cases, for providing technical and/or financial inputs (London and Anupindi, 2011).

One of the main sources of investment and support is private partners who, with the help of the IP, get access to local markets to a wide range of products/services (Arora and Romijn, 2011). However, such partners might mislead the IP and misinterpret the poor needs either intentionally or unintentionally. In some cases, they might exercise monopoly, and even impose a new demand for unneeded products rather than removing the poor misery (Jaiswal, 2008; Karnani, 2007). This justifies why the DLVC usually include multiple layers of private companies to prevent monopolies and to assure ethical trading.

Continuing the PROFIT project, the CLUSA promoted the concept of a “*service provider*” across the agricultural retail services and cotton industry as well as strengthened buyer-supplier relationships via a central payment platform. Apart of the technology side, the CLUSA found that farmers were often unaware of available resources. So the CLUSA facilitated SMS-based marketing campaign via Celpay and Mobile Transactions Zambia Limited (MTZL) (Snodgrass and Woller, 2006). This, for instance, enabled suppliers such as veterinarians and fertilizers’ providers to send promotions to cattle farmers. To build the payment platform, The CLUSA had negotiations with the Bank of Zambia to consider the approval of branchless banking and money transfer services. Later, CLUSA partnered with MTZL and Celpay to complete the buyer-supplier circle and activate the electronic payment that save the farmers costs travelling to buy their agricultural inputs.

Sustainability stage. At this stage donors and their IPs transfer all required resources and experience to the targeted sector in the poor market aiming to increase their competitiveness (Lal and Myint, 1998). This requires operational effectiveness in each of its segments, co-ordination of transactions among actors across the value chain, and supportive business environment (Miller and Da Silva, 2007:97). Participation of local producers proved to be also essential for supportive business environment in the poor market (Mayoux, 2003).

During the design stage, DLVCs set the Key Performance Indicators (KPIs) for monitoring project effectiveness and translate them into *Process-Related Metrics (PRM)* and *Outcome-Related Metrics (ORM)*. The PRM assess how much intervention (including resources, efforts, knowledge and experience) required and the later tracks the result of this intervention.

PRM takes different formats according to the pre-set KPIs. For example, in agricultural projects the PRM usually includes the number of farmers trained, number of training exhibitions, and groups formed (London and Anupindi, 2011). Epstein and Crane (2007: 22) developed a massive PRM for micro-lending in Ghana which includes four sections:

- 1) *Leadership indicators* (e.g. average years of experience of MFI senior executives and loan officers);
- 2) *Strategy indicators* such as amount of loan portfolio, loan size (average & range) and credit ratings of clients; *Structure indicators* like number of loan officers, % of decisions made by loan officers, and amount of group vs. individual loans; and
- 3) *System indicators* such as dollars invested in training (client & employee), number of clients per loan officer, % of income clients are required to save, frequency of payments and quality of IT and credit monitoring systems. Simultaneously these assess the magnitude of the common platforms being developed. ORM must be consistent with the PRM⁴.

⁴ There are comprehensive matrices that include both of the PRM and ORM such as Balanced Scorecard by Kaplan and Norton (1996), Global Reporting Initiative, Market Efficiency Audit by George (1996), Wealth of Nations Triangle Index by Sullivan (2002) and social reporting by CGAP and MIX (2012).

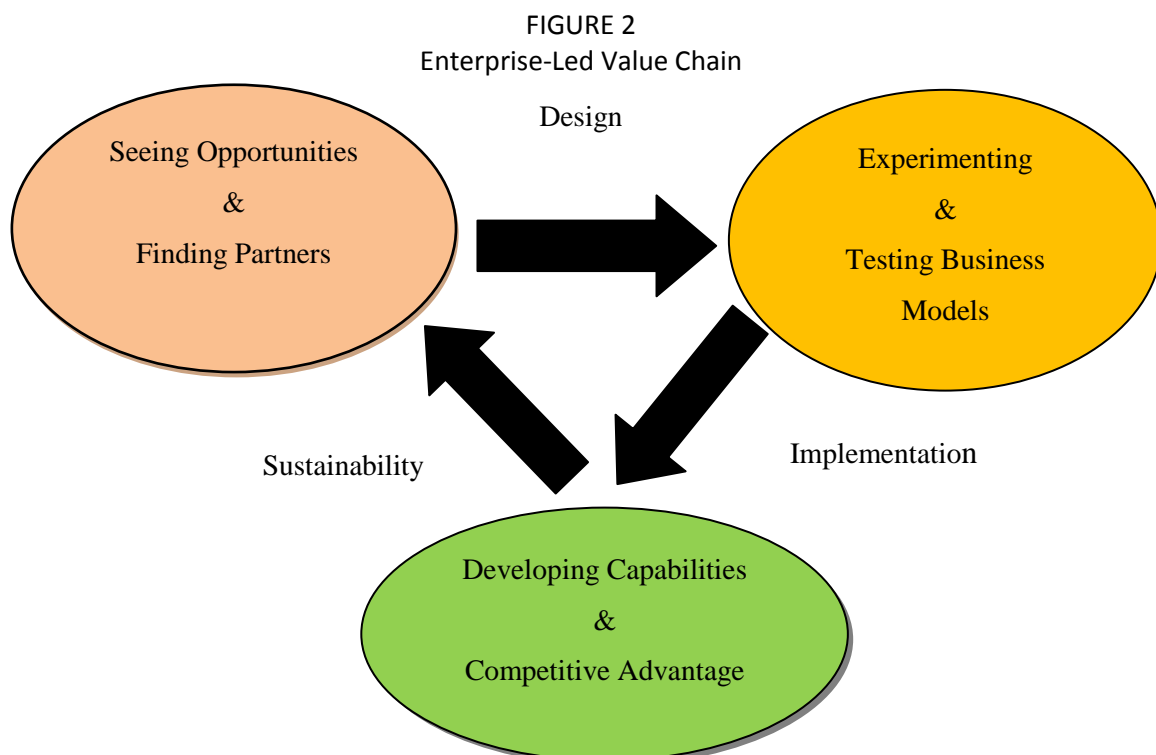
The problem with both the PRM and ORM is that they are internally developed and monitored. In order to cover this gap, DLVC outsource this task to independent auditing company to evaluate results against the pre-set KPIs. The reason for such practice is provide donors with an unbiased assessment of the project (Copestake, 2003).

PROFIT project aimed to collect sector-specific market information and to training farmers via SMS. In doing so, CLUSA developed PRM including number of services available on system and number of trainees using each service (London and Anupindi, 2011: 4). The ORM based on better farmer knowledge of market opportunities and cultivation practices, and increased use of appropriate tillage service (London and Anupindi, 2011: 4).

Despite that fact that, PROFIT project aimed at “*scaling up*” with a large network of trained agents, only 46% of the clients became active and the average sales of agricultural inputs and other related products is 15% less than the expected average (DAI, 2010). This reflects the service lagging and limited demand. In addition, some suppliers such as “Cropserve Zambia limited” who joined CLUSA’s network to provide farmers with chemicals inputs failed expand their agents’ network into important areas such as Mkushi (Sebstad and Krivoshlykova, 2009). This example shows how it was difficult for some partners to scale and keep extended supply chain. It also emphasises that fixing such a problem in Cropserve puts extra pressure on the rest of its value chain, including the ICT infrastructure (London and Anupindi, 2011: 6).

Enterprise-Led Value Chain

In this section we follow a similar procedure (design, implementation, and sustainability) to describe the Enterprise-Led Value Chain as shown in the below Figure 2.



Source: the author’s literature review

Design Stage. At this stage, ELVC (mainly private enterprise that exercise the role of the implementing partner) explore new market opportunities and seek socially oriented partners to develop innovative solutions to the poor's critical problems (Yunus, 2004). ELVC aims to develop untraditional value chains to create competitive advantages and achieve long-term economic benefits (Porter and Kramer, 2006). These new chain usually requires additional investments that are not risk free. For instance, the risks of getting involved in community conflicts where some elites try to control the settings within which other disenfranchised groups act and interact (Arora and Romijn, 2011). Other risks rises from lack of awareness of regulatory rules and government interference in the market. These together make working with the poor a new venture with uncertain economic benefits (Wilson and Wilson, 2006). To overcome such risks, ELVC needs support from various non-traditional partners like Multi-National Corporations (MNCs), non-profit NGOs, or government.

The challenge is, however, how enterprises work with the poor and these non-traditional partners if they lack partnering skills. In 2000, Grameen DANONE Food Limited (GDFL), a 50-50 joint venture between the Grameen Bank Group and the French Group DANONE, was founded to bring daily healthy nutrition to low income people in Bangladesh. Over the last three decades, DANONE has elaborated many humanitarian initiatives with social missions. DANONE perceived a business opportunity in working with local ladies, but they lacked the skills and knowledge to craft a suitable strategy. Trying to fill this gap, Grameen Bank offered support to DANONE working directly with Grameen ladies. By agreement, Grameen Bank grants micro-loans to farmers to raise the cows needed to produce the milk locally. Then local carriers transport this milk to small factory to be sterilized before being distributed door-to-door by Grameen ladies.

Non-traditional partners such as the NGOs and the local communities are often sceptical in working with for-profit enterprises, and therefore put more emphasis on a consensus of the general mission as a condition to their collaboration. So the private enterprises spend long time attracting them.

Implementation stage. During this stage, enterprises conduct radical experimentations to their business models and monitor the outcomes to revise inputs (McLaughlin and Jordan, 1999). "a series of small experiments minimizes risk and maximizes learning, [this is] not intuition, but involves the ability (and intention) to make changes if the first chosen path turns out unsuccessful" (Yunus et.al, 2010: 8). Enterprises who pilot their business model gain wider understanding and polish their skills at the lowest cost. Once the pilot shows sufficient economic return, ELVC are able to scale up their investments. Solution design and implementation have to be conducted iteratively until a robust business model is found or the initiative is abandoned.

Safaricom in Kenya launched its M-Pesa money transfers dealing with retailers who merely sell airtime minutes. Retailers lacked the minimum degree of education and management skills. In turn they failed to use technology and to appropriately record real-time transactions. So Safaricom partnered with the "Top Image", training specialists, to training their 17,000 extension officers and lead retailers. Once the pilot succeeded, M-Pesa extended it to other banking services (e.g. micro-savings and micro-insurance) using their extensive retail outlets.

Grameen Bank's founder, Mohammad Yunus, spent long time with the villagers together as a community: in the rice fields, in farming projects, in afternoon conversations at roadside tea stalls, and in late-evening dinners and debates. By working together and learning from one another, Yunus's and the villagers' unique knowledge, insights and perspectives came into creative collision, sowing the seeds for a profitable and scalable village banking model that neither could have

conceived of independently (Simanis and Hart, 2009). The huge economic potential encouraged the bank to replicate this pilot in different geographical areas which increased the outreach to seven million women borrowers across some 75,000 villages of Bangladesh, with annual loan disbursement exceeding 800 million dollars.

In contrast to a DLVC model, ELVC emphasize testing new business models. Since they are directly engaged in the value chain, they need to create skills and capabilities to bridge the gaps identified. Given the inherent risk in working in an unfamiliar context, it trades cautiously, using pilots to learn and test the initial design. An enterprise may choose to work with other partners (private, government, or donor); however, the nature, viability, and usefulness of such partnerships are also tested during the piloting process. In ELVC, the private enterprise as network maestro aims at building dynamic capabilities, innovating business model, and capturing a portion of the playing field, rather than maintain control over partners to achieve their own interests.

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Sustainability stage. During this stage, the private enterprise evaluates their ability to establish a competitive advantage in the current market and provides the opportunity to assess the development of dynamic capabilities needed for scaling. Enterprises create dynamic capabilities by integrating new resources from the community and non-traditional partners, by transforming resources to their staff, and by acquiring new technology to deliver a unique value to the community and micro-entrepreneurs (Tashman and Marano, 2010). London (2011) explains three approaches for scaling and sustainability; the first is *scaling up* in which enterprise co-generate competitive advantage with an expanding set of partnerships; the second is scaling deep in which the enterprise offers new products and services for the same customers in an existing geographical market; the final is *scaling wide* in which the enterprise try to create new value proposition within the same set of products or services to satisfy new customers in new market. Evidently, business environments are energetic, changes to which may positively or negatively impact current sources of competitive advantage as well as the opportunity to enter new markets.

In the Philippines, Globe Telecom partnered with Smart Communications to leverage the ICT network that enabled them to create a source of competitive advantage and to scale up. Globe Telecom offers a service that allows customers to send and receive money via a mobile phone. The service is called G-Cash and facilitates money remittance and many other transactions with just a text message or SMS. Through this innovation, the cost for money transfers decreased substantially and access to transfer services for remittances extended to geographically remote areas (Mendoza & Vick, 2010). On the other hand, Smart Communications introduced an over-the-air payment system for mobile phones, which has many advantages compared to traditional payment systems. It allows a retailer to load a customer's airtime electronically and therefore helps minimize physical product distribution costs. Another advantage is that product distribution becomes faster, more efficient and

more secure and enables consumers to reload and purchase airtime even in remote rural areas (Mendoza & Vick, 2010).

Concluding the above discussion, during the design stage the private enterprise aims at leverage new business opportunities. Then implementation proceeds cautiously, using pilots to assess the solution design. A successful pilot demonstrates the viability of the business opportunity, helps the enterprise develop skills and capabilities, and generates a competitive advantage. A deliberate process of business development helps ensure the sustainability of the initiative in its current market and provides the opportunity to build the capabilities needed for scaling. As business environments are dynamic, sustainability is at risk.

THEORETICAL FRAMEWORK: BASE OF THE PYRAMID VALUE CHAIN

A candidate business strategy, the “Base of the Pyramid” (BoP), offers insights into how cross-sector collaboration could occur to help alleviate poverty (Prahalad and Hammond, 2002). In this section, we examine how the use of a BoP perspective can enhance cross-sector interdependence and integration.

Advancing the BoP strategy created a crossroad for business strategy and poverty alleviation (Prahalad and Hart, 2002; Prahalad, 2007). The BoP represents four billion people live on less than \$3,000 per capita purchasing power and primarily run their microenterprises in the informal economy (Hammond et.al, 2007). The BoP literature provides a convincing argument to business-minded leaders for viewing the poor as an untapped market of consumers, producers, and entrepreneurs (Akula, 2008). It also, offers insight into the mindsets, capabilities, and partnerships that enterprises need to develop viable business models (London & Hart, 2004; Seelos & Mair, 2007). Most recently, a second generation of BoP strategies has emerged. Rather than an emphasis on “finding a fortune at the BoP,” this work suggests that BoP initiative benefits from “creating a fortune with the BoP” (Arora and Romijn, 2009 & 2011; London & Hart, 2011). A fortune-creating approach involves identifying and enhancing what is “right” in BoP markets, co-creating and piloting business models in deep dialogue with the poor, and establishing competitive advantage based on the capability to become socially embedded in the local context and to assess and enhance mutual value creation (London, 2009).

BoP strategy represents a form of public-private partnership in which international donors, private enterprises (local and multi-national), NGOs, and local community work together toward reaching social objectives by product of achieving economic returns (Prahalad, 2004). In doing so, BoP includes partners from DLVC and ELVC and combines the benefits of both approaches (See Matrix 1 below).

DLVC has a *solid floor*. Embedded in the design and decision to invest, certain things at least will happen on the ground. The ceiling is also fairly well established, given the time frame, investment amount, and guiding metrics. Specific resources will be transferred over a

predetermined time frame. However, at the end of the DLVC sustainability and scalability of remain *less certain*.

ELVC, on the other hand, has a relatively *lower floor* and the potential for a *higher ceiling*. Their emphasis on minimizing risks and small-scale experimentation lowers the floor. The enterprise's design may not be funded or its pilots may be deemed unworthy of further investment. Exit may come early, resulting in only a modest commitment of resource. The upside, however, is potentially substantial. Enterprises generally have a long-term view in their business model development investments; their goal is to create sustainable and scalable initiatives. If the design and piloting go well, then an enduring and widespread impact can result.

In a number of important respects, both of DLVC and ELVC are complementary work together within certain contexts. Effectively integrating these approaches, however, still remains a major challenge.

As discussed above, DLVCs are increasingly employing a facilitation (*help them do it*) rather than a structural (*let us do it ourselves*) approach (Porter and Kramer, 2011).

Donors are also more willing to work with the private sector to help encourage firms to have more direct interactions with local producers in their procurement or distribution efforts. In the same way, private enterprise, make voluntary investments of financial, managerial, and technical resources to address specific poverty and FI issues following the so called "Corporate Social Responsibility".

MATRIX 1
DLVC Vs ELVC

	DLVCs	ELVCs
Floor	Relatively high floor <ul style="list-style-type: none"> ➤ Dedicated funds for investment. ➤ Committed to implementing a set of activities. ➤ Focused on transferring resources. 	Relatively low floor <ul style="list-style-type: none"> ➤ Small initial investment ➤ Commitment only to test activities. ➤ Focus on minimizing risk.
Ceiling	Relatively low ceiling <ul style="list-style-type: none"> ➤ Capped level of investment. ➤ Executing short-term project with planned exit. ➤ Success measured by delivering services. 	Relatively high ceiling <ul style="list-style-type: none"> ➤ Willingness to make escalating investments. ➤ Seeking long term competitive advantage. ➤ Success based on sustainability and scalability.

Summarized from the literature review

RESEARCH APPROACH:

This research follow an interpretative approach and a case study design of the e-Masary mobile money initiative in which cross-sector collaboration is an organizational goal to improve the FI as a societal goal. Understanding these objectives requires perceiving human sense and action in context. We realize both issues as two pillars of a socially constructed phenomenon⁵ and accordingly we based our evidence on the shared meanings, language, documents and reality of its stakeholders (Klein and Myers 1999), and we apply grounded theory (Glaser, 1978; Urquhart et.al, 2010) to construct key concepts from this reality.

E-Masary is one of the biggest such projects ever attempted – 9 cities and more than 18 million potential users (1.5 million already reached) – the issues related to such a networked project are likely to be relevant to the donors and enterprises networks at macro, micro, and meso levels. Given its size, scope, complexity, and diversity, the e-Masary initiative is a symbolic exhibition of the issues related to both of cross-sector collaboration and FI and it helps interpret the evolution of their meanings as being negotiated by the relevant stakeholders.

Table 1: Data Types and Sources

	Data Sources	Number and Period
Desk Research	<p>Two databases have been used to reach to the peer reviewed journal papers covering the core research issues</p> <p>1- Business Source Premier (BSP):</p> <ul style="list-style-type: none"> Financial Inclusion was of real importance, I launched a search with the following criteria: <p>- <i>Find all my search terms: Topic "Financial Inclusion*"</i></p> <p>- <i>Limiters: Full text, References available and Scholarly (Peer Reviewed) Journals.</i></p> <p>- <i>Source Types: Academic Journals.</i></p>	<p>Total of 73 articles 4 out of which were deleted because they were either book reviews or editorials.</p> <p>Period:</p> <p>2001 to 2013</p>
	<p>2- Web of Science (WoS):</p> <ul style="list-style-type: none"> Search for "Financial Inclusion*" and "Cross-sector Collaboration" in ALL Fields. <p>- Limit To: Topics - Limit To Humanities & Social Science</p>	<p>Total of 34 articles 2 out of which do not address the developing context</p> <p>Period: 2001 to 2013</p>

⁵Our understanding of "social construction" reflects "Socially mediated Idealism" where the social world is recreated by the actors with every event, and reality is the *accomplishment individual sense-making* (Ryan et.al, 2002). We are concerned with the procedures through which the individual actors make sense of 'what is going on'.

Interviews	<ul style="list-style-type: none"> Semi-structured individual interviews (Donner & Tellez, 2008; Morawczynski & Miscione, 2008) conducted with top and middle level managers in the three mobile network operators (Vodafone, Mobinil, and Etisalat), Masary Corporation, the Social Fund for Development, and the Financial Supervisory Authority. The interviews length ranges between 45-90 minutes fully recorded with a signed consent of the respondents. 	<p>37 Interviewees</p> <p>Period: March-May 2011</p>
Focus Groups	<ul style="list-style-type: none"> Focus groups conducted with various stakeholders involving a total of 348 individuals (Bloor et.al, 2001; Wilkinson, 2004). The discussions were taped and fully transcribed. Focus groups' length ranges between 45-90 minutes fully recorded with a signed consent of the respondents. 	<p>39 (48 MFIs top management and officers & 300 mobile money users)</p> <p>Period: August-Oct 2011</p>
Electronic samples	<ul style="list-style-type: none"> Electronic samples (provided by the CCO) from e-Masary mobile and internet based systems reflecting issues of available services, data flow, performance indicators and online loan tracking system. 	<p>41 snap shots</p> <p>Period: Sep 2010- Sep 2012</p>

The total textual materials count to 61,478 words inserted in NVivo 8⁶(Gibbs, 2002). The final data used for the open coding process consisted of a total of 1654 paragraphs of text. The grounded theory approach has been followed to analysis the transcribed data (Glaser, 1978; Urquhart et.al, 2010). The iterative coding was the basic tool to link the key themes and categories and to pinpoint the key institutions, individuals, and technologies that construct the cross-sector collaboration and FI. At the end three key themes have been found significant "Balance metrics and align incentives", "investment flexibility", and "innovation and competitive advantage".

E-MASARY CASE STUDY

E-Masary (which means electronic money in Arabic), a payment service by Applications and Payment Systems Development Corporation (APSD), was launched in 2007 (later the name APSD has been changed to Masary Co in 2009). Its key product is the e-wallet, which allows clients to buy credits from general stores and use those to transfer money or buy products and services.

In the cash-based economy of Egypt, only 10 percent of 84 million Egyptians have a bank account (EFSA, 2011). Masary's main objective is to improve the FI of those unbanked Egyptians taping on the 81% expansion of mobile technology(EFSA, 2010). In the following section we explain different services and products provided for e-Mary clients who hold Masary's SIM card.

The first service is "*mobile airtime top-up*" in which Masary's customers can visit one of Masary's 2965 outlets to charge their e-wallets and top-up their mobile credit for any of the mobile networks (Vodafone, Mobinil, and Etisalat)operating in Egypt. The second service is "*real-time payment service*" in which Masary's customers can top-up their e-Wallet to pay their bills (e.g.travel tickets, groceries and utilities) and online Games. Moreover, it enables customers to charge other electronic payment mediums such as "One Card" and "Cash U"⁷. In addition, customers can use their

⁶ NVivo is an electronic tool designed to analyse qualitative data

⁷"One card" is a magnetic striped card for e-shopping and internet payment (www.onecard.net). "Cash U" is also a prepaid internet payment card (<http://www.cashu-egypt.com>).

e-wallet to pay for entertainment websites like www.Shofha.com and www.Mazika.com. The third service is “*mobile microfinance services*” that enables MFIs to mobilize their data entry and reporting at low operating cost. It also enables active borrowers to upload their loans into e-Masary wallet for three uses:

- 1) Resell airtime and electronic payment services to the rural communities with mark-up in order to achieve a profit margin and secure a stable source of income.
- 2) Direct purchase of production inputs or payment for bills.
- 3) Transfer credit to other family members or business partners to do (a) or (b).
- 4) I-Score service in which e-Masary enables their partner MFIs to trace the credit history of existing and potential borrowers.

Donors-Led Value Chain in e-MSARY

In this section we explain the main actors of the donor-led network and exemplify one of its successful initiatives, the Poorest of the Poor Entrepreneurs program (PPE), prior the beginning of e-Masary initiative (See Figure 3 that summarises the key actors DLVC involved in the PPE). The last three decades witnessed numerous FI programs funded through a big list of donors that includes, but is not limited to: the United States Aid (USAID), the Canadian International Development Agency, UNICEF, Ford Foundation, United Nations Development Programme, the Egyptian Swiss Development Fund, Save the Children, German Agency for Technical Cooperation, Italian Fund of Egypt, and the European Commission MEDA program (PlaNet Finance, 2008). The USAID and the Social Fund for Development are the biggest sponsors for the Non-Governmental Microfinance Institutions (NGO-MFIs) in Egypt with a 1.2 billion L.E loan portfolio (PlaNet Finance, 2008).

USAID Egypt finances almost 70% of the MFIs in Egypt. The USAID partners with MFIs who have distinguished records of providing microcredit services. Since 1989, USAID projects served 10 million Egyptian microenterprises. USAID follow two schemes for microenterprise finance: the *banking scheme* and the *foundation scheme*.

The banking model is implemented through the National Bank for Development (NBD) and Banque du Caire to finance rural and urban microenterprises (EFSA, 2010). USAID's largest project in the country, the Agricultural Production and Credit Project (APCP), has been facilitated through partnership with The Principal Bank for Development and Agricultural Credit (PBDAC). To date 775,000 loans worth over 2 billion EGP have been extended to 305,000 micro-entrepreneurs with less than a 2% default rate. It is estimated that 240,000 job opportunities were created as a result of this program (USAID, 2012).

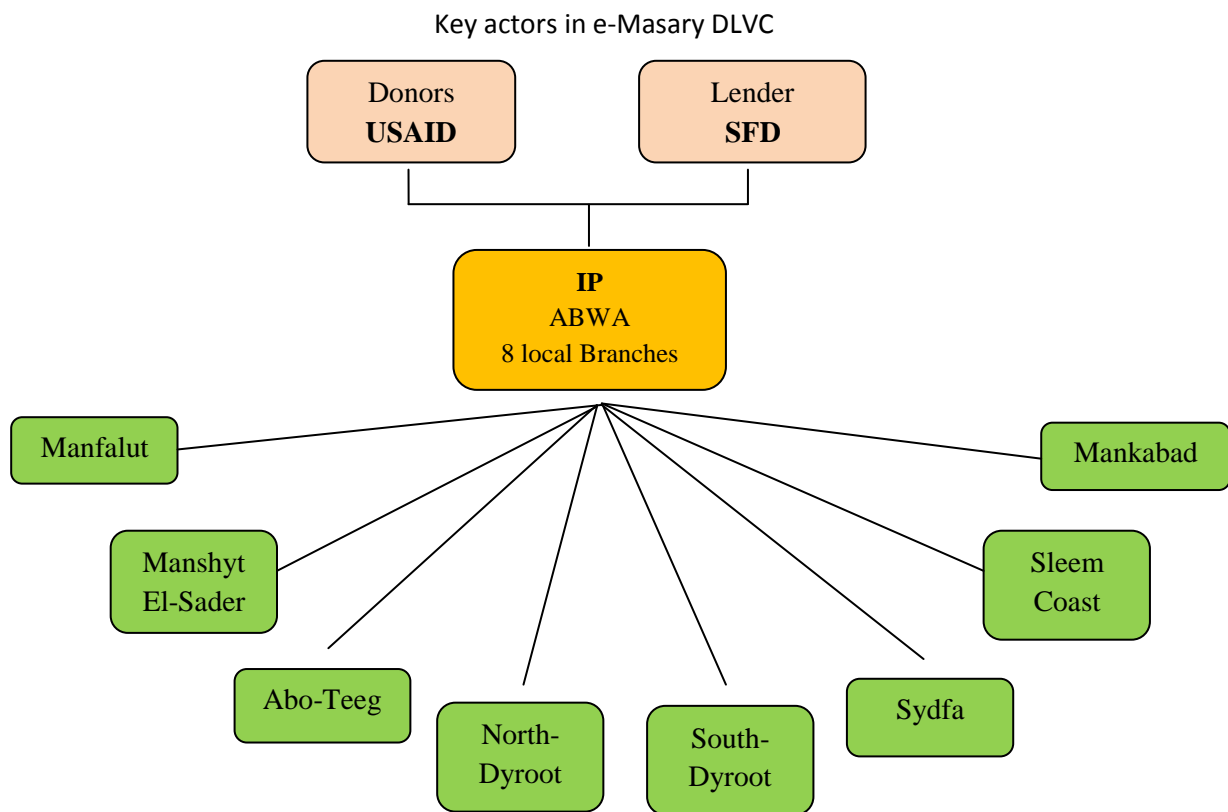
The foundation model was designed to establish private non-profit, community-based organizations to act as microenterprises financial intermediaries (EFSA, 2010). Via these foundations the USAID introduced a variety of FI programs. USAID's projects under this scheme serve 20 out of 26 governorates including the biggest two cities Cairo and Alexandria (USAID, 2012). 98% of these foundations are Non-Governmental Microfinance Institutions (NGO-MFIs) operate on a self-sufficiency basis to cover their costs and extend their outreach to other geographical areas and disenfranchised classes.

The “*Poorest of the Poor Entrepreneurs*” (PPE) program proved to be the most successful micro-lending program delivering group lending particularly to women (EFSA, 2010). The PPE

provided a maximum loan size of 6000 L.E per borrower within a group of five. So far the outstanding loan portfolio comprised 72,045 women.

In 2005, the USAID Egypt called for proposals from interested NGO-MFIs who have the capacity and wide network of alliances with the local businesses and other NGOs in Egypt to join the PPE program. Alexandria Businessmen Association, REDEC, and Assuit Businesswomen Association (ABWA) were the finalists chosen to implement project for the period between 2005- 2008 ⁸ (SANABEL, 2010).

FIGURE 3



Source: the author's field visits

The Social Fund for Development (SFD), a quasi-governmental entity, was founded in 1991 to mitigate the negative impact of structural adjustment policies and to serve as a safety net (Central Bank of Egypt, 2005). Today, SFD continues to help alleviate poverty and combat unemployment. In this capacity, they manage Microfinance Sector Program, “SFD acts as an APEX⁹ organization that supports the creation and/or development of successful MFIs in cooperation with many of the aforementioned international donor agencies (mostly the USAID)” explained by the SFD microfinance

⁸ USAID operates on the basis of grants of the US government, which enables it to directly contract with NGOs without the requirement of a sovereign guarantee. USAID executes its microfinance programs by extending of refinance facilities and technical assistance both at zero costs. The refinance facility is usually placed as a USD guarantee deposit at a local bank and used as collateral for a commercial EGP line of credit to the NGO.

⁹ APEX finance is a wholesale finance to MFIs and other financial intermediaries both commercial and non-profit.

director in April 2011. In addition to this role, the SFD, under Law 141 of year 2004, is mandated to coordinate the micro and small enterprises sector in Egypt (Central Bank of Egypt, 2005).

The SFD offers their partner NGO-MFIs a mixture of grants for building capacity and loans for microenterprises finance. Credit is given to either start-ups at an interest rate of 7% or to existing microenterprises at a 9 %. NGO-MFIs are allowed an interest spread of just 1 % to cover both risk and operating costs, which does not allow for cost recovery let alone to allow for growth (SANABEL, 2010).

As an exception to this rule, *“the NGO-MFIs operating under the PPE program of UNDP are not bound by the interest cap and in addition receive professional technical assistance for microfinance best practice”* explained by the SFD microfinance director in April 2011¹⁰.

SFD as well as its lending retail structure face the typical sustainability risk of all SFD's worldwide due to high dependency on external funding (USAID, 2010). Although continuous access to APEX finance may be a double-edged sword in motivating improved MFI financial performance, practitioners seem agreed that the absence of follow-up financing severely weakens an APEX's ability to promote capacity building at the retail level. In this case, highly subsidized funding is being provided to NGO-MFIs on a first-come, first served basis, and borrowers will receive second loans only after all those applying for first loans are served.

In 2006, the SFD joined the PPE program as a sponsor for the MFIs nominated by the USAID in 2005. By the end of September 2007, the ABWA received 30,086,000 L.E loans and 2,000,000 L.E grants (for operation and fixed costs) to refinance existing microenterprises in Assuit governorate and its hamlets (ABWA, 2011).

The PPE proposal states social indicators such as *percent of rural members, number of active borrowers, No of training hours for loan groups, group attendance for monthly meetings, percent income increase for borrowers and No of loan renewals*. Financial indicators are *average annual loans outstanding, adjusted overdue rate, adjusted profits, subsidy dependence index* (The PPE final assessment report 2008). Nominated NGO-MFIs had to report the aforementioned indicators using periodical financial statements. In addition, they had to report their periodical *“due diligence”* or *“snappy visits”* to monitor the performance of micro-entrepreneurs.

In December 2006, the SFD initiated a project for a computerised loan tracking to be adopted by partner NGO-MFIs and to maintain standard high quality reporting. The project was funded by the USAID and the final product¹¹ was available for sale in early Feb 2007.

ABWA started in year 2000 as an NGO-MFI founded by a group of businesswomen to serve the poorest microentrepreneurs in Assuit governorate under the patronage of the Ministry of Social Solidarity and according article 524 of law 141 year 2004. The association is run by an elected board of directors, which represents a mix of microfinance professionals. By the end of 2010 could finance 200000 microenterprise with 362,129, 700 L.E. ABWA implemented nine microfinance projects than the PPE. ABWA is *“Not-for-distributing-profit organization”* rather than *“Not-for-profit organization”*,

¹⁰ The SFD microfinance director and USAID's former deputy manager have been helpful to get detailed data about the performance of the PPE project applied by ABWA.

¹¹ To install this computerized information system, NGO-MFIs spend 12,000 L.E set-up cost and 1,500 maintenance cost.

because they achieve financial surplus (but do not distribute profit and keep it to extend their social quest” (SFD director date).

Under the PPE program, ABWA (the IP), applied ready-made lending methodologies already pre-designed by the USAID. To win the auction, ABWA set a long term plan to provide group lending and develop different methodology for peer selection, peer monitoring, dynamic incentives, regular repayment schedules and collateral substitutes. These mechanisms are supposed to help ABWA, to reach the pre-set social and financial indicators of the PPE program. Moreover, ABWA had to provide a list of potential local partners expected to join the PPE program. The list included commercial banks, consultancy and training companies, and independent auditing companies.

“Our biggest partners are Alexandria Bank, Sawiris Foundation for Social Development, Construction Germany Bank, Catholic Relief Service and UNICEF who provide us with technical as well as financial support” (ABWA’s deputy manager in April 2011).

For example, “every February the Catholic Relief Service used to send us a group of financial specialist to train our loan groups on how to self-manage their microenterprises and maintain a good communication between the group members as well as with our loan officers” (ABWA’s HR manager in April, 2011).

To form a loan group, 5-10 members voluntarily get-together and choose their group leader. Members have to be rural poor woman and have existing microenterprise each. Moreover, they have to be in between 18 to 60 years old, have a good credit history. And most importantly, each member has to submit an appropriate visibility study¹² of her project. In addition, they have to bring their national IDs and sign a contract of joint responsibility against group loans. By this contract, all group members have to attend a monthly meeting.

Once all of these conditions are fulfilled, the assigned loan officers issue a loan request and send it to the credit committee for approval and eligibility assessment. Within 15 days, the committee issues a bank letter to enable the group members receive their loan. After the committee’s approval, groups receive their “logbook” that includes the unit code, repayment dates and the group’s internal bylaw. All of these procedures have been set by the USAID and the SFD as standard cycle that should be followed for loan approval under the PPE program.

Ghatak (1999) argues that peer selection can be instrumental in improving repayment rates, allowing for lower interest rates, and raising social welfare. His insight is that a group lending contract provides a way to price discriminate that is impossible with an individual lending contract. The following examples point to the presumed heterogeneity within the borrowers (Arora and Romijn, 2011), which is not true on the ground.

The SFD’s director also agrees that “this peer selection assures that some members invest in safe business whilst other invests in risky ones. In case of success, risky business achieves higher returns than the safe ones and in case of failure some group member will be able to pay the due amount.

¹² The study should not only include the business idea and required budget, but also clarify why each member can afford sustaining his existing project. Reasons are usually social (e.g. having a big number of dependents, partner’s death).

ABWA deputy manager confirmed and said; *“peer selection results into classified groups who usually invest in similar microenterprises and have the same cultural characteristics. We simple consider each group as one”*.

In contrast, a borrower of ABWA said that; *“The problem is that each one of us is investing in his own microenterprise and in some case we could not gain enough money to pay our instalments; We parley know each other and we do not do business together to jointly guarantee each other; We are just neighbours”* (Focus group conducted in March 2011).

The PPE loan period ranges between 12-18 months. Borrowers pay 18%¹³ interest rate, 2% in advance and the rest is scheduled into the monthly instalments. Borrowers usually begin with 1000 L.E each and then the loan size increases upon satisfactory repayment. Every month, groups have to attend in the branch to which they are affiliated to update their loan officer and pay their due amount. Then the payment is processed through the documentation cycle shown in Appendix 2. This cycle shows how the accountants and others (e.g. staff of the Management Information System department) process all payment data into manual as well as electronic record and report them periodically to the loan officers and top management. Two days is the grace period for arrears and if the group failed to repay the two consecutive instalments, their assigned loan officer report this to the treasurer and cut off any future lending. These different mechanisms followed by ABWA anticipate a stream of increasingly larger loans or what is called progressive lending (Hulme and Mosley, 1996). One of the loan offices explained the following during one of the focus groups:

“There is a high mobility rate among women micro-entrepreneurs in Assuit and in turn we found a difficulty to catch the defaulters who move across town trading their goats or handcrafts in some other cases. They simply come and go, and then they start borrowing again with a clean slate at a different branch or program”

ABWA's deputy manager emphasised that group bylaw and commitment to attend monthly group meetings are really important to avoid the information asymmetry and trace defaulters.

At the beginning of PPE program, ABWA circulated a call for participation and vacancies to work in to their existing staff. *“Most of the loan officers and treasurers were anxious to join the new program. One year after we called for branch manager and loan officer team manager, but no one accepted to apply for the job”* said by ABWA's HR manager. In the other side, loan officers justified this by *“the expected salary increase is far less than the spending for daily field visits including travel and communication costs; our salary is parley enough to and we could not risk taking more responsibilities”*. This example shows that the staff incentives should match the expected task, which is difficult under standardised program with preset job descriptions and fixed incentives.

In September 2008, the mutual agreement between the USAID, the SFD and their partner NGO-MFIs terminated and the PPE reached to its end with so far 72,045 micro-entrepreneurs. 71% of the borrowers had commercial microenterprises that sell FMCGs, while the rest had services and agricultural businesses. This 29% started with commercial projects and when proved successful

¹³ ABWA pays only 9% interest rate for the SFD and earn 9% to cover the administration fees in addition to mark up.

they ask the MFIs for bigger size loans to build other microenterprises (including financial leasing and mortgage finance).

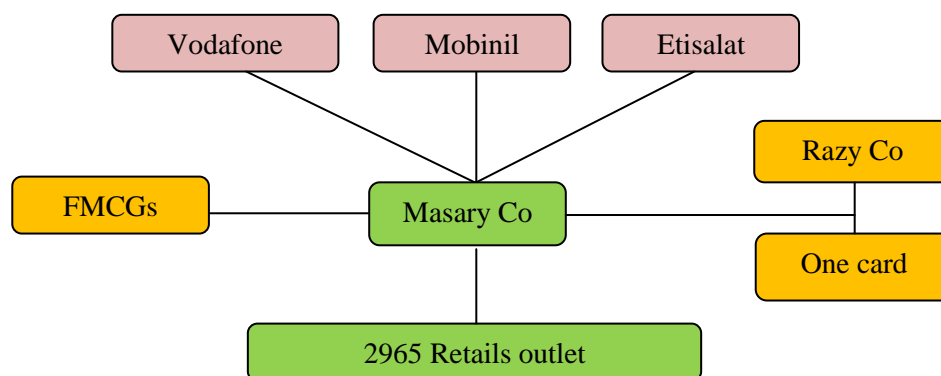
Our interviewees think that conflicting policies between the USAID and the SFD that have led to an inconsistent approach to the development of the PPE program and have raised concerns regarding the sustainability of these efforts. Moreover, *“ABWA failed to maintain the financial sustainability in the PPE program”* said by the deputy manager of ABWA in March 2011.

In December 2008, ABWA start its transformation to be a microfinance company (USAID, 2010). To gain two significant benefits in transforming: (a) the ability to provide a variety of microfinance services besides microcredit, and (b) the increased access to funding whether through debt or equity. Other reasons for transforming are related to escaping current constraints of the NGO Law which gives the same treatment for all NGOs regardless of their types of operations and sets restrictions on governance and management matters. Moreover, it limits NGOs' ability to best utilize advanced computerized management and financial systems. And overall, to waive the obligatory approval of the MSS before accepting any fund from private enterprise. The first step toward this transformation was to establish its own commercial projects and to acquire more equity via its partnership with private enterprise such as Masary Co.

Enterprise-Led Value Chain in e- Masary:

In this section we explain the main actors of the ELI value chain that built by Masary Co at its early stages before launching e-Masary BoP initiative. We draw our discussion on example from Masary *“mobile airtime transfer services”* and *“real-time payment service”*. See Figure 4 that summarises the ELI key actors.

FIGURE 4
Key actors in e-Masary ELVC



Source: the author's field visits

Masary Co aimed to tap the gap of FI in the Egyptian market using mobile technology as medium of exchange the carries monetary value. They simply merged banking and mobile markets to transform the way unbanked Egyptians transact and finance their microenterprises.

The low number of banked people motivated the company's founders to seize the chance. Masary's early pilots attributed this gap to the limited number of branches, mainstream reliance on cash, high transaction costs and lack of cost-effective banking solutions for the rural poor (Masary's pilot, 2007). Accordingly, Masary Co saw their market opportunity in building contactless payment tools with affordable prices to different classes of people.

During the first two years of operation, the company built strong alliances with the three mobile telecoms (Vodafone, Mobinil and Etisalat) to assure reliable mobile infrastructure, extensive retail outlet/agent networks, and to make good margins on low Average Revenue Per User (ARPU). "A potential threat at that stage was that *"any of the mobile telecoms could launch a similar service and count on its huge capacity and reputation to beat Masary"* said by Masary's CEO in March 2011. *"The challenge was to acquire all the three mobile brands under the umbrella of Masary's airtime services to achieve the maximum utility of all telecoms"* (Said by Masary's Operation manager in March 2011).

In parallel, Masary's founders used their personal ties and business relationship to build other alliances with two big IT solution companies "One Card" and "Razy". These companies helped Masary develop two information platforms. The first is a Web-based system (www.e-masary.com), and the second is mobile-based system (SIM application Toolkit).

Both of these systems facilitated Masary's airtime as well as electronic payment services. In against, Masary's founder invested 2,000,000 L.E in One Card shares and 1,250,000 in Razy. Since then, "We outsource all system upgrades and security firewall development to Razy" said by Masary's IT manager. In addition, "One Card batches have been allocated to Masary's agents to sell them" (said by Masary's sales manager). Following this, Masary started acquiring a network of retail agent reached to 2965 outlets by Dec 2011. Each agent (kiosks/ supermarkets/ airtime shops) have got Point of Sale (POS) devices costs 800 L.E. This machine enables Masary's customers to use "One Card", a magnetic striped card to withdraw and deposit virtual cash. During the first two months of operation Masary acquired 1000 agents. At that point, it was very expensive to provide all agents with POS device. Alternatively, agents were asked to use their own mobile phones to serve Masary's customers. Once the agent is registered (using his national identification number and trading code), s/he gets Masary software downloaded to his mobile either in Masary headquarter or in the closest Masary agent. Agents who have smart phones receive SMS including a link that automatically direct the user to software download and installation instructions. So, there was no specific handset required to install Masary's menu. Masary's menu is organized in both Arabic and English accompanied with voice commands to guide the illiterate users.

At that stage, Masary could not explore the real challenges that poor customers face and how they make their buying decision. Masary's marketing manager exemplified this point by saying that *"customers were looking for the cheapest airtime offered by trusted brands; why they buy our airtime while telecoms' inclusive agents (wholesalers) offer fewer prices"*. In response, Masary had to renegotiate their deals with all mobile telecoms to get cheaper offers than the exclusive agents.

Sooner, Masary's management decided to scale wide and fill other market gaps. In 2010, Masary unleashed cross selling of products and services in between the MSPs (e.g. Coca Cola, Egypt Air, BNP PARIBAS and Egypt's utilities) and with retailers. This facilitated different value propositions

such as sending remittances home across the country and making electronic payments, branchless banking, and mobile microfinance services.

Both of airtime and real-time payment services had short-term financial objectives than social objectives. Examples of Masary's performance indicators *are customer acquisition cost, working capital, agent acquisition costs, monthly revenue/customer, monthly revenue/ agent, customer daily cash in & out* (Copy of Masary's Performance appraisal provided by the HR manager).

Mobile telecoms: Egypt witnessed a huge increase in the number of low-income subscribers from 1 million to approximately 20 million during the last five years, which makes it attractive market for multinational telecoms (Egypt state information service, 2010). Latest estimates of the Egypt's population 85.3 million that is the largest in the Middle East and North Africa (National statistical offices, 2010). 74 million out them are mobile subscribers (i.e. almost 87% of the population) served by Vodafone, Mobinil and Etisalat (Ministry of information communication and technology, 2012).

Mobinil is an Egyptian multinational telecom founded in 1998. Since then, Mobinil has strived to maintain a growing market share. However, Vodafone joined the market in the same year and replicated the worldwide experience of Vodafone group into the Egyptian market. Mobinil still serves 45% of the mobile subscribers in Egypt and provide the highest quality mobile telecommunication services to the upper and middle classes (NTRA, 2010). Vodafone core advantage is providing 3G, ADSL internet broadband services for upper income class. Because of that, Vodafone has the largest services revenue market share 62 % (American chamber in Egypt, 2011).

For a decade, poor users have been neglected as a target market for mobile telecoms in Egypt. Not until, Etisalat, a MNC based on UAE, poor customer have been recognized a latent market. Then the race started among the three telecoms to serve that market. Telecoms offer only prepaid services. Dealing with Masary Co, receive assigned monthly quota (with 4% discount) from airtime and virtual money. Before launching e-Masary wallet, Masary Co used to pay in advance then manage its own investment portfolio. Asking about the main motive for telecoms to joint Masary Co; Vodafone marketing manager said *"Why not? Masary agents are everywhere and they have access to uncovered market segments"*. Further, Vodafone's CFO said *"mobile payment and remittances are the only way to differentiate our brand and scale into a completely new market"*

Telecoms use these quotas to control Masary's price escalating that threat their exclusive agents. Telecoms also provide tangible and intangible support to Masary's staff. For example, Etisalat provided all staff training programs, technical specialists and motorcycles to Masary's distinguished agents. By the end of each year, Etisalat celebrate Masary's agents and provide them tangible incentives.

Concluding this section, we argue that Masary Co as IP uncovered new market opportunities and experimented with different business models to improve the FI. In doing so, they conducted many partnerships with non-traditional partners e.g. (mobile telecoms) who usually work outside the banking industry. Finally, Masary is still growing (20 million L.E/12% sales increases by end of 2010) despite their small investment and endless market challenges (Egypt Finance, 14th October 2010).

BOP PERSPECTIVE AND ESTABLISHING CROSS-SECTOR COLLABORATIONS IN E-MASARY

Masary Co launched its first Microfinance initiative in partnership with eight MFIs (See table 1 below) in eight different governorates of Egypt in order to improve the FI of the poor micro-

entrepreneurs. Through this partnership Masary Corporation provide loans for the young micro-entrepreneurs, mobile loan tracking and e-wallet. In these services, integration between the DLVC and ELVC is a must to conduct transactions. This mutual collaboration between donors and their IP on one side, and private enterprise (IP) and its network on the other side mixes the commercial chain with the microfinance chain and links between micro-entrepreneurs and the financial system.

ABWA is the most successful NGO-MFI out of the aforementioned eight. Through this partnership, ABWA was able to take advantage of Masary's mobile payment service to track loan payments, disbursements and repayments in real-time and also expand its client base. In June 2011, the Central Bank of Egypt allowed mobile transfer up to EP 3000 (USD 505) per day via mobile phones (IFC, 2011). As a result of this approval, Masary's e-wallet service is likely to expand many fields. The rest of our discussion draws examples from the interaction between the above mentioned actors.

TABLE1
Partner NGO-MFIs in e-Masary initiative

Name of MFIs	Location	Key Sources of fund
Mawada Organization for Community Development	Kafr El-Shiek	Self-fund & Donations from Masary Co
Dakahlya Businessmen's Association for Community Development	Dakahlya	Ford Foundation & The Egyptian Swiss Development Fund
EL-Basaysa Association	Sharkiya	SFD & The Canadian International Development Agency
REDEC Association	Beni-Suef	SFD & USAID
Assuit Businesswoman Association	Assuit	SFD& USAID
Sana Association	Sohag	SFD
Feda Association	Qena	SFD
Egyptian Family Development Foundation	Aswan	SFD

Source: the author's field visits

Balance metrics and align incentives

The BoP perspective emphasizes mutual value creation and relies on the view that enterprises generate economic returns by creating value for micro-entrepreneurs and other local stakeholders (Prahalad and Hammond, 2002).

Enterprises that focus on economic performance but neglect to understand the needs of those they seek to serve will likely fail. In *mobile airtime top-up* for example, Masary Co relied more on the performance of their sales representatives and retail agents to expand Masary's brand and increase the company's sales. So the company developed monthly training programs for both reps

and agents to get more sales and marketing skills. Then each of them had to achieve a minimum monthly target. However, Masary management did not realize that their sales reps focus their efforts to sell to one or two big wholesalers than to spend more time and money to get to the poor community in villages and hamlets. Despite that Masary service was intended to link the disenfranchised, in reality it links the more banked people.

The Base of the Pyramid Value Chain (BoPVC) model requires that the partners adopt a balanced scorecard to capture relevant information about economic returns and local impacts. Although enterprises are familiar with measuring financial benefits, they are less knowledgeable about approaches for capturing local impacts. The development community can provide advice on appropriate metrics, particularly in evaluating local effectiveness and efficiency impacts, as well as tracking lessons learned. These customer-level data are valuable to enterprises as they provide key insights into how to adjust business models to better meet local needs, especially during the piloting stage. Understanding efficiency impacts are critical to eventual sustainability and scalability; for example, in e-Masary mobile microfinance services, Masary Co allied with the SFD to set valid social indicators and transform them to mobile based questionnaire. An automatic calls to customer after conducting each transaction. According to AWBA's deputy manager, this electronic questionnaire helps the partner NGO-MFIs (e.g. AWBA) to get "*feedback loop*" about customers' social indicators such as *assets capacity building, income increase, education level, number of dependants and well as data about the essential production input for their microenterprises*. From Masary's point of view, this means spending more money for customers and staff training on how to you the system. New initiatives also carry inherent risks of failure. However, these failures generate learning, especially during the piloting phase. Metrics that track lessons learned from cross-sector partnerships, business models, and specific investments can demonstrate progress even when early on-the-ground success is limited.

Incentives in the BOPVC model must also be aligned to reflect the balanced scorecard. Development professionals' social metrics need to expand beyond simple measurement of achieving targets within budgets and should be tied to the same set of local impacts that the enterprises are encouraged to use. To respond to the longer-term nature of these outcomes, a bonus pool could be set aside pending results that will be measured at 1 y or more after specific activities are undertaken. By balancing metrics and aligning incentives, enterprises and donors are better positioned to sustain their engagements and maintain their commitment to working collaboratively with micro-entrepreneurs.

E-Masary mobile tracking system transforms customers' and organizational data into "online Balanced Scorecard" or "online grid". This grid has been developed by a team of IT specialist from Masary, ABWA and the SFD. E-Masary online grid has been designed based on "*Giraffe Scorecard*"¹⁴, which is a performance assessment methodology developed by *PlaNet finance group*" in the Middle East. By the end of year 2009, the SFD director who is also a senior analyst in PlaNet finance acquired a team of microfinance specialist from PlaNet finance to train Masary's staff on how to follow the Giraffe system. Then within six month, Masary Co conducted a pilot study to test the feasibility of this evaluation system in e-Masary online grid. In doing so, they recruited 30 researchers from the ministry of social solidarity.

¹⁴There are other two commonly used performance scorecards for financial inclusion initiatives in Egypt: the first is the "*Camel system*" that was originally proposed to manage the performance of *the American Federal Bank* and then has been adopted by the microfinance regulators; and the second is the "*PEARL system*" that was developed in Uganda to measure the performance of women-focused microfinance programs.

The pilot succeeded and resulted in detailed socio-financial scorecard for e-Masary mobile financial services. Examples of social indicators are efficient use to I-Score and credit bureau, staff incentives, staff communication. Other indicators are client-related such as prevention of over indebtedness, respectful treatment, No of complaints and privacy. Furthermore, there are governance and regulatory indicators like internal audit and quality of performance reporting.

Create Flexibility:

Integration between donor and enterprise also requires building considerable flexibility into the partnership. The BoP perspective emphasizes that enterprises embrace the need for trial and error as they move through the design and implementation stages. Business-model creation is an innovative process that will take time to come to fruition. Financial commitments, for example, are best viewed as investments that start small and are then potentially scalable.

Implementation, in particular, requires an orientation based on learning rather than execution. Thus to support enterprises during this stage, donors need to offer flexibility in the type, timing, and length of their support. Enterprises will need different types of support at different times. Initially, as discussed above, critical support may help generating an understanding of opportunities and challenges in the BoP marketplace. In the implementation stage, the enterprise may need access to modest amounts of subsidized capital to facilitate experimentation. If any pilots prove successful, the enterprise may need its external partners to scale up their investments in building platforms that it can leverage.

In addition to type, the timing of supporting resources should not be predetermined. Donor-Led Initiatives should not be required or expected to use a certain amount of resources each year. Early stage experiments can be low cost to maximize the returns from a learning orientation. On the other hand, these enterprises also need to be capitalized for scale. Thus when the business model is investment ready, the DLVC should have the ability to facilitate a greater investment. The timing and success of these developments, however, is difficult to predict in advance.

As such, DLVC support during the implementation stage requires a willingness to accept learning outcomes and a long-term orientation as part of their metrics. Not all new business models, for instance, will be worthy of additional investment. Only high-potential ones should be expanded by committing additional resources. The less successful ones should be stopped or redirected. These failures can generate learning, but the DLVC's investment is non-recoverable. Trying to accurately predict in advance which models will be worthy of investment, the type and amount of investment needed, and timing for these investments is challenging and likely to be inaccurate.

Actors in the DLVC (The SFD, USAID and NGO-MFIs) provided Masary Co with knowledge and experience as well as access to the poor market. For instance, Masary Co had no experience on how to select peer groups and build trust with the community. This was useful during the introduction stage. Overall, DLVC in e-Masary had strong business relations with banks and training companies, which paved the way in front of Masary Co. Additionally, Masary Co with their continuous experimentation and stakeholders' involvement in creating new values and designing new services presented a sustainable (long-run) initiative for FI.

Innovation and competitive advantage

In the future, competitive advantage will depend more upon the capacity to generate disruptive innovation and creative destruction through competitive imagination and legitimacy, and to integrate stakeholder interests to create value on multiple fronts (i.e., synergistic value creation) (March, 1991). By doing so, it is argued that firms can improve customer loyalty, build transformational customer-supplier relationships, lower employee turnover, and improved reputation (Berman, et al. 1999).

Based on the case of e-Masary, we found it challenging to manage stakeholder concerns while some of them are more important than the others and have control over critical resources or centrality in a network. Only in cases of threats (e.g. new legal rule or market pressure) stakeholder unite and change the way they collaborate. At then, they achieve emerging or transformational change.

To be competitive partners need to manage radical uncertainty by exchanging knowledge among each other and with community. Knowledge from diverse and dispersed heterogeneous stakeholders, many of whom may be adversarial (e.g. regulators and bankers), prevents the surprise emergence of threats (Hart and Sharma, 2004).

To achieve scale, BoP ventures (like all ventures with a goal of long-term self-sufficiency) must create and sustain competitive advantage. But because these ventures must straddle the border between the formal and informal economies, they face unique challenges in generating that competitive advantage. Unlike businesses operating solely in the formal economy, BoP venture leaders cannot rely on establishing competitive advantage based on investments made within and secured by the firm's protective boundaries or by a country's legal system. Businesses operating in the informal economy must accept the possibility of copyright infringement, the presence of counterfeiters, a limited ability to enforce contractual terms, and the prospect of product adulteration (Hernando, 2000).

At the same time, unlike businesses operating solely in the informal economy, BoP ventures cannot rely on a strategy that primarily depends on extracting value already present in these markets, such as accessing locally-available expertise or utilizing pre-existing infrastructure. These assets may be limited, and also available to other competing firms. Common availability levels the playing field, and nearly all local businesses that operate in the informal economy remain small (Banerjee and Dufflo, 2007).

A good example of innovating new services and creating a competitive advantage is I-Score services in e-Masary. I-Score is a credit rating service normally available in the "I-Score credit bureau" and costs 30 L.E per person. The service is currently available for e-Masary's partner NGO-MFIs to investigate the credibility of borrowers and discover double borrowing. The idea of this service aroused out of the social interaction between NGO-MFIs and their customers that could threat e-Masary's long term sustainability. Due to the mobility nature of e-Masary wallet, many borrowers could escape with their loans and never paid back their loans. In response, Masary Co (with the help of the SFD) invented a central online platform that links all member NGO-MFIs with each other and with the banking system.

In 2011, Masary developed “*the Network of Egyptian MFIs*” in which all member MFIs pays only 5 L.E to investigate the credit history of each new client. This reduced price is more reasonable for microloans. As said by a loan officer, “ It is not fair to pay 30 L.E to test the eligibility of small amount of loan; adding 30 L.E. to 2% nonreturnable advance payment discouraged many of our clients to join”.

CONCLUSION

Market-based approaches contributed toward addressing the challenges of FI. On one side, the Donor-led approach focuses on the opportunity to better connect local producers to domestic and international markets. On the other side, the enterprise-led approach focuses on the creating new opportunities via building inclusive business in which different stakeholder can contribute the most. Both the donor community and enterprises have developed value chain initiatives to work more closely with local producers. These DLVC and ELVC have different strengths and weaknesses as they move through the design, implementation, and sustainability stages. While these approaches are complementary and may be trying to achieve the same outcome, donors and enterprises have largely preferred to maintain their independence from one another.

Using the lens of the BoP perspective, we present a collaboration model based on interdependence to better integrate investments in DLVC and ELVC. In particular, we propose several strategies that DLVCs can use to enhance collaborative interdependence between the two sectors. Variation in context may influence the prioritization and sequencing of these strategies. Regardless, the strategies offer a partnership approach that builds on the strengths of each sector and provides insight for a model that can facilitate stronger connections between profits and FI as a tool for poverty alleviation.

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